CRIME DETECTION IN CREDIT CARD FRAUD

A PROJECT REPORT

Submitted by

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in partial fulfillment of requirements for the award of the course

CGB1201 – JAVA PROGRAMMING

In

DEPARTMENT OF

COMPUTER SCIENCE AND ENGINEERING

(ARTIFICIAL INTELLIGENCE AND MACHINE LEARNING)

K. RAMAKRISHNAN COLLEGE OF ENGINEERING

(An Autonomous Institution, affiliated to Anna University Chennai and Approved by AICTE, New Delhi)

SAMAYAPURAM – 621 112

DECEMBER 2024

K. RAMAKRISHNAN COLLEGE OF ENGINEERING (AUTONOMOUS)

SAMAYAPURAM – 621 112

BONAFIDE CERTIFICATE

Certified that this project report on **"CRIME DETECTION IN CREDIT CARD FRAUD"** is the bonafide work of **KIRTHIKA S (8115U23AM025)** who carried out the project work during the academic year 2024 - 2025 under my supervision

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DECLARATION

I declare that the project report on **" CRIME DETECTION IN CREDIT CARD FRAUD "** is the result of original work done by us and best of our knowledge, similar work has not been submitted to **"ANNA UNIVERSITY CHENNAI"** for the requirement of Degree of BACHELOR OF ENGINEERING. This project report is submitted on the partial fulfillment of the requirement of the award of the course **CGB1201- JAVA PROGRAMMING**

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Date:

ACKNOWLEDGEMENT

It is with great pride that I express our gratitude and indebtedness to our institution,
"K.RAMAKRISHNAN COLLEGE OF ENGINEERING(Autonomous)", for providing us with the opportunity to do this project. I extend our sincere acknowledgment and appreciation to the esteemed and honorable Chairman, **Dr. K. RAMAKRISHNAN, B.E.,** for having provided the facilities during the course of our study in college.

I would like to express our sincere thanks to our beloved Executive Director, **Dr.S. KUPPUSAMY, MBA, Ph.D.,** for forwarding our project and offering an adequate duration to complete it. I would like to **thank Dr. D. SRINIVASAN, M.E., Ph.D., FIE., MIIW.,MISTE., MISAE., C. Engg.,** Principal, who gave the opportunity to frame the project to full satisfaction.

I would like to thank **Dr. B. KIRAN BALA, B.Tech., M.E., M.B.A., Ph.D., M.I.S.T.E., U.A.C.E.E., IAENG,** Head of the Department of Artificial Intelligence and Machine Learning, for providing his encouragement in pursuing this project.

I wish to convey our profound and heartfelt gratitude to our esteemed project guide
Mrs. P. GEETHA.,M.E., Department of Artificial Intelligence and Machine Learning, for her incalculable suggestions, creativity, assistance and patience, which motivated us to carry out this project.

I render our sincere thanks to the Course Coordinator and other staff members for providing valuable information during the course.

I wish to express our special thanks to the officials and Lab Technicians of our departments who rendered their help during the period of the work progress.

INSTITUTE VISION AND MISSION

VISION OF THE INSTITUTE:

To achieve a prominent position among the top technical institutions.

MISSION OF THE INSTIITUTE:

M1: To bestow standard technical education par excellence through state of the art infrastructure, competent faculty and high ethical standards.

M2: To nurture research and entrepreneurial skills among students in cutting edge technologies.

M3: To provide education for developing high-quality professionals to transform the society.

DEPARTMENT VISION AND MISSION

DEPARTMENT OF CSE(ARTIFICIAL INTELLIGENCE AND MACHINELEARNING)

Vision of the Department

To become a renowned hub for Artificial Intelligence and Machine Learning Technologies to produce highly talented globally recognizable technocrats to meet Industrial needs and societal expectations.

Mission of the Department

M1: To impart advanced education in Artificial Intelligence and Machine Learning, Built upon a foundation in Computer Science and Engineering.

M2: To foster Experiential learning equips students with engineering skills to Tackle real-world problems.

M3: To promote collaborative innovation in Artificial Intelligence, machine Learning, and related research and development with industries.

M4: To provide an enjoyable environment for pursuing excellence while upholding Strong personal and professional values and ethics.

Programme Educational Objectives (PEOs):

Graduates will be able to:

PEO1: Excel in technical abilities to build intelligent systems in the fields of Artificial Intelligence and Machine Learning in order to find new opportunities.

PEO2: Embrace new technology to solve real-world problems, whether alone or As a team, while prioritizing ethics and societal benefits.

PEO3: Accept lifelong learning to expand future opportunities in research and Product development.

Programme Specific Outcomes (PSOs):

PSO1: Ability to create and use Artificial Intelligence and Machine Learning Algorithms, including supervised and unsupervised learning, reinforcement Learning, and deep learning models.

PSO2: Ability to collect, pre-process, and analyze large datasets, including data Cleaning, feature engineering, and data visualization..

PROGRAM OUTCOMES(POs)

Engineering students will be able to:

1. **Engineering knowledge:** Apply the knowledge of mathematics, science, engineering fundamentals, and an engineering specialization to the solution of complex engineering problems.

2. **Problemanalysis:**Identify,formulate,reviewresearchliterature,andanalyze complex engineering problems reaching substantiated conclusions using first principles of mathematics, natural sciences, and engineering sciences

3. **Design/development of solutions:** Design solutions for complex engineering problems and design system components or processes that meet the specified needs with appropriate consideration for the public health and safety, and the cultural, societal, and environmental considerations

4. **Conduct investigations of complex problems:** Use research-based knowledge and research methods including design of experiments, analysis and interpretation of data, and synthesis of the information to provide valid conclusions

5. **Modern tool usage:** Create, select, and apply appropriate techniques, resources, and modern engineering and IT tools including prediction and modeling to complex engineering activities with an understanding of the limitations

6. **The engineer and society:** Apply reasoning informed by the contextual knowledge to assess societal, health, safety, legal and cultural issues and the consequent responsibilities relevant to the professional engineering practice

7. **Environment and sustainability:** Understand the impact of the professional engineering solutions in societal and environmental contexts, and demonstrate the knowledge of, and need for sustainable development

8. **Ethics:** Apply ethical principles and commit to professional ethics and responsibilities and norms of the engineering practice.

9. **Individual and team work:** Function effectively as an individual, and as a member or leader in diverse teams, and in multidisciplinary settings.

10. **Communication:** Communicate effectivelyon complex engineering activities with the engineering community and with society at large, such as, being able to comprehend and write effective reports and design documentation, make effective presentations, and give and receive clear instructions.

11. **Project management and finance:** Demonstrate knowledge and understanding of the engineering and management principles and apply these to one’s own work, as a member and leader in a team, to manage projects and in multidisciplinary environments.

12. **Life-long learning:** Recognize the need for, and have the preparation and ability to engage in independent and life-long learning in the broadest context of technological change.

ABSTRACT

Credit card fraud is a significant issue in the financial industry, leading to substantial monetary losses for both individuals and organizations. Traditional fraud detection systems often rely on rule-based algorithms that fail to adapt to new and evolving fraudulent tactics. This project proposes a crime detection system for credit card fraud using machine learning techniques implemented in Java. The system leverages historical transaction data to identify patterns of fraudulent activity and classify transactions as either legitimate or suspicious. By utilizing algorithms such as decision trees and random forests, the system can effectively detect anomalous behavior in real-time, thus offering a more accurate and scalable solution compared to conventional methods. The primary objective of this project is to develop a robust fraud detection model that balances high detection accuracy with low false positive rates.

ABSTRACT WITH POs AND PSOs MAPPING

ABSTRACT	POs MAPPED	PSOs MAPPED
The project focuses on developing a Java-based system for detecting fraudulent transactions in credit card usage. By analyzing transaction patterns and applying machine learning techniques, the system aims to identify and prevent fraud in real time. The project ensures high accuracy while minimizing false positives, offering a robust solution for financial security.	**PO1** **PO2** **PO4**	**PSO1** **PSO2**

Note: 1- Low, 2-Medium, 3- High

SUPERVISOR **HEAD OF THE DEPARTMENT**

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CHAPTER 1

INTRODUCTION

1.1 Objective

The primary objective of this project is to develop a robust, real-time system that effectively detects and prevents fraudulent activities in credit card transactions. This system aims to identify suspicious patterns and behavior in transaction data to flag potentially fraudulent activities, ensuring timely intervention and minimizing losses. By implementing machine learning algorithms, the system will be capable of analyzing large volumes of transaction data in real time, enhancing the overall security of credit card transactions.

Specifically, the key objectives of this project are:

1. **To Design a Real-Time Fraud Detection System**: Build a system capable of analyzing and flagging fraudulent transactions as they occur, ensuring quick detection and reducing potential losses.
2. **To Utilize Machine Learning Models for Detection**: Implement and compare various machine learning algorithms, such as decision trees, random forests, and neural networks, to identify patterns in transaction data that indicate fraudulent activity.
3. **To Enhance System Performance**: Improve the effectiveness of fraud detection by employing data preprocessing techniques like feature selection, normalization, and balancing the dataset to handle class imbalances (since fraudulent transactions are often rare).

1.2 Overview

Credit card fraud remains a significant and growing concern for the global financial industry, with billions of dollars lost annually due to fraudulent transactions. As online transactions and digital payments continue to increase, traditional fraud detection methods, such as rule-based systems, are becoming less effective in identifying new and sophisticated fraudulent activities. Fraudsters constantly adapt their tactics to evade detection, creating a need for more advanced, data-driven solutions that can effectively analyze and detect unusual patterns in credit card transactions.

To address these challenges, the integration of machine learning techniques in fraud detection has emerged as a game-changer. By leveraging large datasets and advanced algorithms, machine learning models can uncover hidden patterns and anomalies in transaction data that are often missed by traditional methods. These models not only adapt to evolving fraudulent behaviors but also improve detection accuracy over time through continuous learning. Moreover, real-time fraud detection powered by machine learning ensures swift identification and prevention of fraudulent transactions, significantly reducing financial losses and enhancing customer trust in the security of digital payment systems.

1.3 Java Programming Concepts

Java, a versatile and object-oriented programming language, plays a critical role in the development of robust applications, including fraud detection systems. Its platform independence, strong type-checking, and extensive library support make it an ideal choice for building scalable and secure applications in the financial domain.

Key Java programming concepts utilized in this project include

1. **Object-Oriented Programming (OOP):**

- ✓ The system is designed using core OOP principles like encapsulation, inheritance, and polymorphism to ensure modularity and reusability of code.

2. **Data Structures and Collections Framework:**
   - ✓ Java's Collections Framework is employed to handle and manipulate large datasets efficiently. Structures like Array, Lists, Hash Maps, and Queues are used to store and process transaction records.
3. **Concurrency and Multithreading:**
   - ✓ Real-time fraud detection necessitates the concurrent processing of multiple transactions. Java's multithreading capabilities ensure seamless parallelism and reduced response times.
4. **File I/O and Database Connectivity:**
   - ✓ Java's I/O libraries are used for reading and writing transaction data, while JDBC (Java Database Connectivity) facilitates interaction with databases to store and retrieve transaction records securely.
5. **Machine Learning Integration:**
   - ✓ Java-based ML libraries like Weka or Deep Java Library (DJL) are used to implement machine learning models for fraud detection. These libraries provide pre-built algorithms and tools for training and evaluating models.
6. **Error Handling and Security:**
   - ✓ Robust exception handling mechanisms ensure smooth operation and quick resolution of unexpected issues. Additionally, Java's built-in security features, such as secure coding practices and encryption libraries, help protect sensitive transaction data.

CHAPTER 2
PROJECT METHODOLOGY

2.1 Proposed Work

The proposed work for this project aims to develop an intelligent and scalable real-time credit card fraud detection system using machine learning algorithms. The following steps outline the approach and planned work for successfully implementing the system:

1. **Dataset Acquisition and Preparation**

- ✓ **Dataset Selection**: We will source a publicly available dataset, such as the Credit Card Fraud Detection Dataset from Kaggle, which contains transaction records labeled as fraudulent or legitimate.
- ✓ **Preprocessing**: We will clean the dataset by removing irrelevant features, handling missing values, and normalizing numerical data to ensure consistency across different features. Additionally, we will address the class imbalance issue by using techniques like oversampling or under sampling to ensure the model effectively learns to identify fraudulent transactions.

2. Feature Engineering and Selection

- ✓ **Feature Creation**: We will create new features that could provide valuable insights for fraud detection. This could include transaction frequency, average transaction amounts, and deviations from normal spending patterns.
- ✓ **Feature Selection**: By applying techniques like correlation analysis and Principal Component Analysis (PCA), we will select the most influential features for training the model, removing redundant or irrelevant features to improve performance.

3. Model Selection and Implementation

- ✓ **Algorithm Comparison**: We will implement multiple machine learning algorithms, such as Random Forest**,** Logistic Regression, and Neural Networks, to determine the best model for detecting fraudulent transactions.
- ✓ **Training and Tuning**: The chosen models will be trained using the prepared data, and hyper parameter tuning will be performed to optimize model performance. We will evaluate the models based on metrics like accuracy**,** precision**,** recall, and F1-score to ensure a balanced trade-off between detecting fraud and minimizing false positives.

4. Real-Time Fraud Detection System

- ✓ **System Design**: The fraud detection system will be designed to analyze incoming transactions in real-time, flagging suspicious activity for further investigation.
- ✓ **Implementation in Java**: The system will be implemented using Java**,** leveraging libraries like Weka or Deep Java Library (DJL) for machine learning integration. Java's concurrency features will be utilized to process multiple transactions simultaneously, ensuring quick detection and response times.
- ✓ **Database Integration**: We will integrate the system with a database for storing transaction data securely and enabling efficient querying for fraud detection.

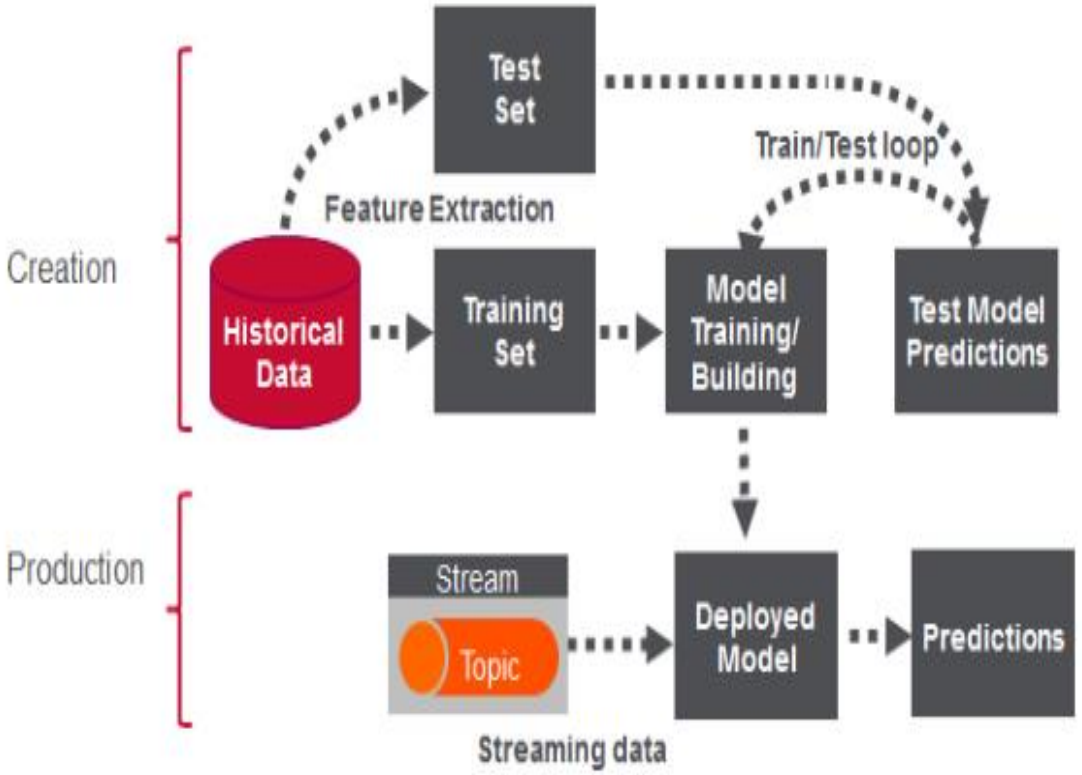
5. Evaluation and Optimization

- ✓ **Performance Evaluation**: The system will be evaluated using test data to measure its effectiveness in real-world scenarios. We will perform cross-validation to ensure the model generalizes well to unseen data.
- ✓ **System Optimization**: Based on the results, we will fine-tune the model, adjust preprocessing techniques, and improve the system's overall performance to minimize both false positives and false negatives.

6. Deployment and Scalability

- ✓ **Scalability Testing**: The system will be designed to scale to handle large volumes of transaction data. Load testing will be performed to ensure that it remains efficient as the number of transactions increases.
- ✓ **Deployment Plan**: The final fraud detection system will be ready for deployment in a simulated financial environment, where it will be tested with live transaction data for effectiveness and accuracy.

2.2 Block Diagram



The block diagram illustrates the overall workflow of the credit card fraud detection system, divided into two main phases: **Creation** and **Production**.

1. Creation Phase

This phase focuses on preparing the machine learning model using historical data. It consists of the following steps:

- ✓ **Historical Data**:

  This is the starting point of the process, where past transaction records are collected. These records include both fraudulent and non-fraudulent transactions. The data serves as the foundation for training and testing the model.
- ✓ **Feature Extraction**:

  Relevant features are extracted from the historical data to represent transactions in a meaningful way for the model. These features could include transaction amount, time, location, and spending patterns.
- ✓ **Training Set and Test Set**:

  The historical data is split into two parts:

  Training Set: Used to train the machine learning model by helping it learn patterns and behaviors indicative of fraud.

  Test Set: A separate portion of the data used to evaluate the model's performance and ensure it can generalize to unseen data.

- ✓ **Model Training/Building**:

  In this step, machine learning algorithms such as Random Forest, Neural Networks, or Logistic Regression are applied to the training data. The model learns to differentiate between legitimate and fraudulent transactions based on the extracted features.
- ✓ **Test Model Predictions**:

  The trained model is tested on the test set to assess its accuracy, precision, recall, and F1-score. This step involves comparing the model's predictions with actual outcomes to identify areas for improvement.

- ✓ **Train/Test Loop**:

  The process may involve iterating multiple times, fine-tuning the model's parameters to improve its performance before it is ready for deployment.

2. Production Phase

Once the model is trained and tested, it is deployed to detect fraud in real-time transaction streams.

- ✓ **Streaming Data**:

  Real-time transaction data flows into the system continuously. Each transaction is analyzed to determine whether it is legitimate or fraudulent.
- ✓ **Deployed Model**:

  The trained and optimized model is deployed in a production environment. It processes incoming transactions and uses the patterns it learned during the creation phase to make predictions.
- ✓ **Predictions**:

  For each transaction, the system generates predictions, labeling them as either "fraudulent" or "legitimate." Suspicious transactions can then be flagged for further investigation or immediate action.

CHAPTER 3
MODULE DESCRIPTION

3.1 Module 1 : Data Representation (Transaction Class)

Purpose:

This module represents the structure of a credit card transaction and contains the necessary fields and methods to encapsulate transaction details.

Key Features:

- ✓ **Fields:** Stores transaction ID, amount, location, cardholder name, and timestamp.
- ✓ **Constructor:** Initializes a transaction with the given details.
- ✓ **Getter Methods:** Provides access to transaction details like getTransactionId(), getAmount(), getLocation(), etc.

3.2 Module 2 : Fraud Detection Logic

Purpose:

This module contains the core logic for detecting fraudulent transactions based on predefined rules.

Key Features:

- ✓ **Rule 1:** Flags transactions where the amount exceeds a threshold (e.g., ₹5000).
- ✓ **Rule 2:** Flags transactions originating from blacklisted locations.

3.3 Module 3 : Transaction Processing

Purpose:

This module processes transactions by applying the fraud detection logic and generates appropriate alerts or confirmations.

Key Features:

- ✓ Evaluates whether a transaction is fraudulent.
- ✓ Prints an alert for fraudulent transactions.
- ✓ Confirms successful processing for legitimate transactions.

3.4 Module 4 : User Input Module

Purpose: Collects transaction details from the user.

Key Features:

- ✓ Prompts the user to enter:
- ✓ Number of transactions.
- ✓ Details for each transaction (ID, amount, location, and cardholder name).
- ✓ Validates and formats the input for processing.

How It Fits in the Flow:

- ✓ Converts user input into Transaction objects.
- ✓ Passes each transaction to the Transaction Processing Module.

3.5 Module 5 : Integration and Execution

Purpose:

This module integrates all other modules, processes the sample transactions, and displays the results.

Key Features:

- ✓ Calls the `processTransaction()` method for each sample transaction.
- ✓ Outputs alerts or confirmations based on the fraud detection results.

CHAPTER 4
CONCLUSION & FUTURE SCOPE

4.1 CONCLUSION:

The implementation of a credit card fraud detection system demonstrates the importance of leveraging simple yet effective techniques to identify and flag suspicious transactions. By analyzing transaction parameters such as amount and location, this project highlights how basic rule-based logic can serve as a foundational approach for detecting anomalies in financial activities. The program effectively processes user input, identifies fraudulent transactions, and alerts users in real time, ensuring transparency and accuracy.

This project lays the groundwork for more advanced fraud detection systems by showcasing how structured and modular programming can simplify the process of decision-making. While the current system relies on predefined rules, it can be enhanced by integrating advanced machine learning algorithms and historical transaction patterns for greater accuracy. This would help in reducing false positives and adapting to evolving fraudulent tactics.

In conclusion, this project not only provides a functional solution for detecting credit card fraud but also opens avenues for future innovation in building robust and scalable fraud prevention systems for the financial industry.

4.2 FUTURE SCOPE:

1. Integration of Advanced Machine Learning Models:

Incorporating deep learning techniques, such as neural networks, to improve fraud detection accuracy and reduce false positives.

Utilizing ensemble methods to combine the strengths of multiple models for better prediction and classification.

2. Real-time Monitoring and Alert Systems:

Enhancing the system to process transactions in real time and immediately flag or block suspicious activities, ensuring faster response to potential fraud.

3. Incorporation of Behavioral Analytics:

Adding features to analyze user behavior patterns over time, such as location, device usage, and transaction frequency, to detect anomalies more effectively.

4. Scalability and Cloud Integration:

Deploying the system on cloud platforms to handle large volumes of transactional data across multiple institutions and geographical regions.

5. Multi-layered Security Features:

Developing additional layers of security, such as two-factor authentication or biometric verification, to further protect against fraud.

6. Cross-platform Compatibility:

Expanding the system to work seamlessly across mobile, web, and banking apps to ensure broader applicability and usability.

APPENDIX A
(SOURCE CODE)

```
import java.util.*;

class Transaction {
    String transactionId;
    double amount;
    String location;
    String cardHolder;
    long timestamp;

    // Constructor
    public Transaction(String transactionId, double amount, String location, String cardHolder, long timestamp) {
        this.transactionId = transactionId;
        this.amount = amount;
        this.location = location;
        this.cardHolder = cardHolder;
        this.timestamp = timestamp;
    }

    // Getter methods
    public String getTransactionId() {
        return transactionId;
    }

    public double getAmount() {
        return amount;
```

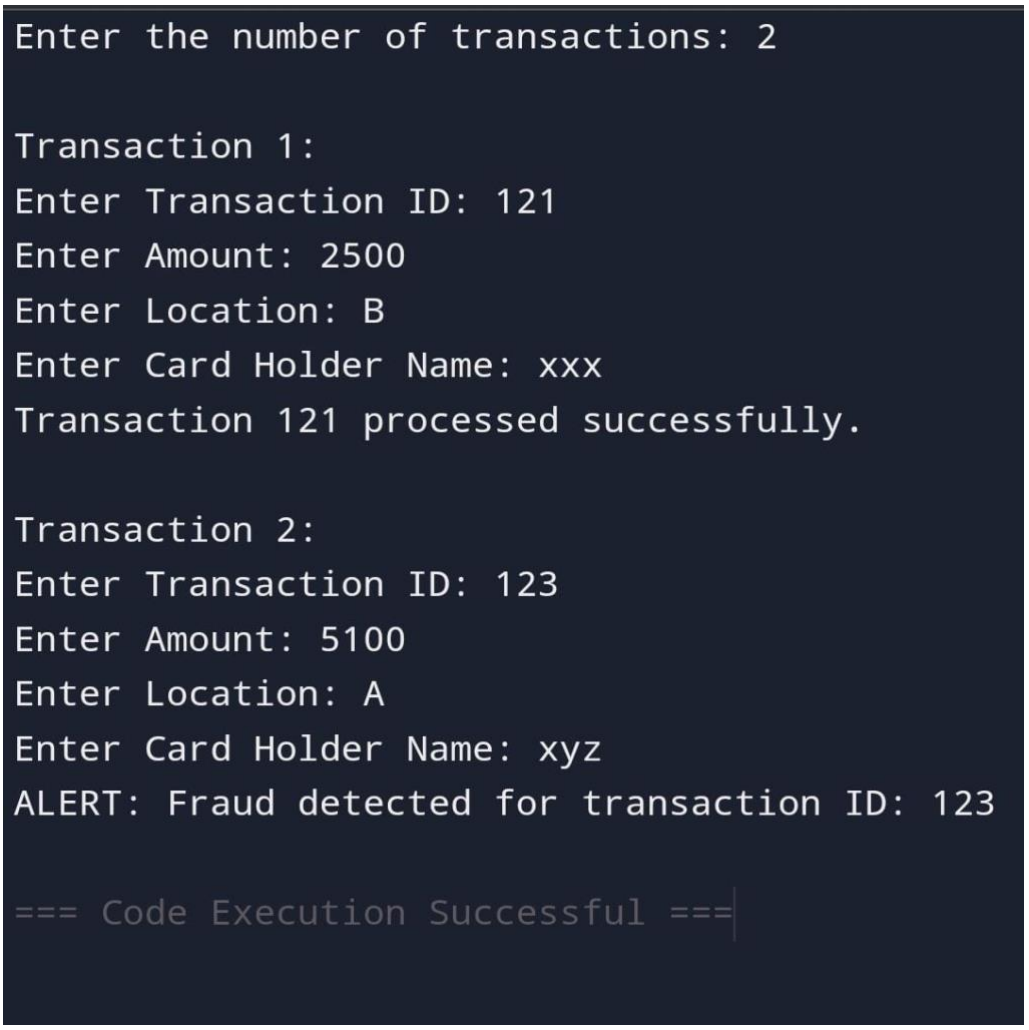
```
    }

    public String getLocation() {
        return location;
    }
    public String getCardHolder() {
        return cardHolder;
    }
    public long getTimestamp() {
        return timestamp;
    }
}
class FraudDetectionSystem {
    // Rule: If a transaction amount is unusually high or location is suspicious, flag
it
    public static boolean isFraud(Transaction transaction) {
        double amountThreshold = 5000.0;  // Threshold for fraud detection
        List<String>        blacklistedLocations        =        Arrays.asList("LocationA",
"LocationB");
        if (transaction.getAmount() > amountThreshold) {
            return true;  // Fraud detected based on amount
        }
        if (blacklistedLocations.contains(transaction.getLocation())) {
            return true;  // Fraud detected based on suspicious location
        }
        return false;  // If no fraud detected
    }
    // Simulate transaction processing
    public static void processTransaction(Transaction transaction) {
```

```
        if (isFraud(transaction)) {
            System.out.println("ALERT: Fraud detected for transaction ID: " + transaction.getTransactionId());
        } else {
            System.out.println("Transaction " + transaction.getTransactionId() + " processed successfully.");
        }
    }
}
public class CreditCardFraudDetection {
    public static void main(String[] args) {
        Scanner scanner = new Scanner(System.in);
        System.out.print("Enter the number of transactions: ");
        int transactionCount = scanner.nextInt();
        scanner.nextLine(); // Consume the newline
        for (int i = 1; i <= transactionCount; i++) {
            System.out.println("\nTransaction " + i + ":");
            System.out.print("Enter Transaction ID: ");
            String transactionId = scanner.nextLine();
            System.out.print("Enter Amount: ");
            double amount = scanner.nextDouble();
            scanner.nextLine(); // Consume the newline
            System.out.print("Enter Location: ");
            String location = scanner.nextLine();
            System.out.print("Enter Card Holder Name: ");
            String cardHolder = scanner.nextLine();
            long timestamp = System.currentTimeMillis();
            // Create a Transaction object
            Transaction transaction = new Transaction(transactionId, amount, location,
```

```
cardHolder, timestamp);
            // Process the transaction
            FraudDetectionSystem.processTransaction(transaction);
        }
        scanner.close();
    }
}
```

APPENDIX B

(SCREENSHOTS)



Description:

Step 1: Prompt for Number of Transactions

- ✓ The program starts by asking the user to input the number of transactions they want to process.

Transaction 1: Legitimate Transaction

User Inputs:

- ✓ **Transaction ID:** 121

- ✓ **Amount:** 2500
- ✓ **Location:** B
- ✓ **Card Holder Name:** xxx

Processing:

1. The `isFraud` method checks:
    - ✓ The amount (`2500`) is below the fraud threshold of ₹5000.
    - ✓ The location (`B`) is not blacklisted.
2. Since neither condition flags the transaction as fraudulent, it is considered legitimate.

Transaction 2: Fraudulent Transaction

User Inputs:

- ✓ **Transaction ID:** 123
- ✓ **Amount:** 5100
- ✓ **Location:** A
- ✓ **Card Holder Name:** xyz

Processing:

1. The `isFraud` method checks:
    - ✓ The amount (`5100`) exceeds the fraud threshold of ₹5000, flagging it as fraudulent.
    - ✓ The location (`A`) is also in the blacklist, reinforcing the fraud detection.
2. The program identifies the transaction as fraudulent based on these conditions.

At the end of processing all transactions, the program terminates successfully.

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